

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 3, 2018/2019

### BAC1074 – ETHICS AND GOVERNANCE

( All sections / Groups )

30 MAY 2019

9.00 a.m. – 11.00 a.m.

( 2 Hours )

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#### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages excluding cover page with 4 Questions only.
2. Attempt all **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

Jentayu Bank was a medium-sized, local financial institution. The management had a good reputation for backing successful deals but the CEO (and he is a significant shareholder) had recently moved to Kuala Lumpur to be 'close to the big-bank centre of activity'. He commuted into Jentayu Bank's head office for two or three days each week to oversee major deals. Lately, the bank's profitability had decreased and the management had begun to renegotiate many loans on which payments had fallen behind. By doing so, the bank was able to disclose to them as current, rather than non-performing, as the unpaid interest was simply added to the principal to arrive at the new principal amount. Discussion was also under way on changing some accounting policies to make them less conservative.

Jamal, the audit partner for Jentayu Bank account, was becoming concerned about the risk associated with giving an opinion on the fairness of the financial statements. During the early days of the audit, it became evident that the provision for doubtful loans was far too low and he made an appointment to discuss the problem with the CEO and his vice president of finance. At the interview Jamal was told that the CEO knew the provision was too low but they did not want to increase it because that would decrease their reported profits. Instead, they had approached a company that provided insurance to protect leased equipment such as earth movers, against damage during the lease and arranged for insurance against non-payment on the maturity of their loans. As a result, they said, any defaults on their loans would be made up from the insurance company, so they did not see any point to increase the provision for loan losses for disclosing the insurance arrangement.

When he heard of this, Jamal expressed concern to Jentayu Bank's management, but they were insistent. Jentayu Bank was such a large account therefore, he sought the counsel's advice from Kenneth, the senior partner in his firm who was in charge of assessing such accounting treatments and the related risk to the auditing firm. Kenneth flew out to confer with Jamal and they decided that the best course of action was to visit the client and indicate their intent to resign which they did. After dinner, Kenneth was at the airport for his plane home. By coincidence, he met Seelan, who held responsibilities similar to his own at one of the competing firms. Seelan was returning home as well and was in good spirits. On the flight, Seelan let it slip that he had just picked up an old client of Kenneth's firm- Jentayu Bank.

**Required:**

- a) Identify six potential stakeholders of Jentayu Bank and explain their respective interest. (18 marks)

**Continued...**

- b) Explain the application of Agency Theory and Stakeholder's Theory in the governance of Jentayu Bank.

(7 marks)

(Total: 25 marks)

## **QUESTION 2**

Prior to the 1997 financial crisis, the developmental initiatives to improve the various aspects of the legal and institutional framework for corporate governance in Malaysia have progressed on a periodic and ongoing basis. The financial crisis provided a need for government and industry to adopt a concerted and holistic approach towards corporate governance.

### **Required:**

- a) Discuss five governance activities that are or could be applied to the finance manager's duties and responsibilities. (15 marks)
- b) i. Explain the importance of good ethics and good governance. (4 marks)
- ii. Briefly explain three governance issues in Enron's case. (6 marks)

(Total: 25 marks)

## **QUESTION 3**

Philosophers have been dedicated to the study of ethical behaviour for millennia. The ideas' concepts and principles they have developed have long been recognized as important touchstones for the assessment of corporate and personal activities. Consecutively, directors, executives and finance managers need an awareness of expected ethical parameters and need to build these into the culture of their organizations.

### **Required:**

- a) As finance managers, explain the effect of corporate frauds from the perspective of three major ethical theories namely; environment utilitarianism, deontology and fairness which apply to people making ethical decisions in a business.

(13 marks)

**Continued...**

- b) Based on Fraud Triangle Theory, explain what could be the contributing factors for increasing corporate financial reporting fraud? Provide two examples for each element of this theory. (12 marks)

(Total: 25 marks)

#### **QUESTION 4**

A regulatory body is an organization responsible for monitoring the activities of entities or individuals. Regulatory bodies are formed or given power under the terms of an Act.

**Required:**

Explain how Bank Negara Malaysia, Companies Commission of Malaysia and Securities Commission Malaysia as regulatory bodies could play their important roles to prevent ethical and governance issues in the financial services industry.

*(Each regulator above must be explained separately)*

(Total: 25 marks)

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